



MEDIA STATEMENT

LOCAL GOVERNMENT REVENUE AND EXPENDITURE: THIRD QUARTER LOCAL GOVERNMENT SECTION 71 REPORT

FOR THE PERIOD: 1 JULY 2019 – 31 MARCH 2020

National Treasury has released the local government revenue and expenditure report for the third quarter of the 2019/20 financial year. This report covers the performance against the adjusted budgets of local government for the third quarter of the municipal financial year ending on 31 March 2020 and includes spending against conditional grant allocations for the same period.

Noteworthy, is that this is the first municipal financial year that the report is prepared by using the figures from the *mSCOA* data strings. The Municipal Standard Chart of Account (*mSCOA*) Regulations were promulgated on 22 April 2014 and prescribes the uniform recording and classification of municipal budget and financial information at a transaction level. All municipalities and municipal entities had to comply with the Regulations by 01 July 2017. The *mSCOA* Regulations require that municipalities upload their budget and financial information in a data string format to the Local Government portal across the six *mSCOA* regulated segments.

The report is part of the *In-year Management, Monitoring and Reporting System for Local Government (IYM)*, which enables provincial and national government to exercise oversight over municipalities, and identify possible problems in implementing municipal budgets and conditional grants.

The credibility of the information contained in the *mSCOA* data strings is still a concern. At the core of the problem is:

- The incorrect use of the *mSCOA* and municipal accounting practices by municipalities;
- A large number of municipalities are not budgeting, transacting and reporting directly in or from their core financial systems. Instead they prepare their budgets and reports on excel spreadsheet and then import the excel spreadsheets into the system. Often this manipulation of data lead to unauthorised, irregular, fruitful and wasteful (UIFW) expenditure and fraud and corruption as the controls that are built into the core financial systems are not triggered and transactions go through that should not; and
- Municipalities are not locking their adopted budgets and monthly reporting periods on their financial systems at month-end to ensure prudent financial management. To enforce municipalities to lock their budgets and close their financial system at month-end in 2019/20, the Local Government Portal will be locked at the end of each quarter. System vendors were also requested to build this functionality into their municipal financial systems.

The Section 71 report facilitates transparency, better in-year management as well as the oversight of budgets. This makes these reports management tools and early warning mechanisms for councils, provincial legislatures and officials in order to monitor and improve municipal performance. The improvement of the credibility of the data strings is therefore a priority for national and provincial treasuries.

KEY TRENDS:

Aggregate trends

1. In aggregate, municipalities spent 62.1 per cent or R304.2 billion of the total adjusted expenditure budget of R489.8 billion as at 31 March 2020 (third quarter results for the 2019/20 financial year). In respect of revenue, aggregate billing and other revenue amounted to 69.8 per cent or R341.9 billion of the total adjusted revenue budget of R489.7 billion.
2. Of the adjusted operating expenditure budget amounting to R411.4 billion, R251.6 billion or 61.2 per cent was spent by 31 March 2020.
3. Municipalities have adjusted the budget for salaries and wages expenditure to R123.9 billion. This constitutes 30.1 per cent of their total adjusted operational expenditure budget of R411.4 billion. At 31 March 2020, spending is 64.4 per cent, or R79.8 billion.
4. In the period under review, capital expenditure amounted to R52.2 billion, or 67 per cent, of the adjusted capital budget of R78.4 billion.
5. Aggregated year-to-date total expenditure for metros amounts to R173.2 billion or 60.7 per cent, of their adjusted expenditure budget of R285.3 billion. The aggregated adjusted capital budget for metros in the 2019/20 financial year is R39.4 billion, of which 31.6 per cent, or 12.4 billion, has been spent as at 31 March 2020.
6. When billed revenue is measured against their adjusted budgets, the performance of metros reflects a shortfall across water services for the third quarter of the 2019/20 financial year. This does not take into account the collection rate:
 - Water revenue billed was R17.8 billion against expenditure of R20 billion;
 - Energy sources revenue billed was R56.8 billion against expenditure of R50.9 billion;
 - The revenue billed for waste water management was R5.2 billion against expenditure of R4.9 billion, and
 - Levies for waste management billed were R7.2 billion against expenditure R5.8 billion.
7. As at 31 March 2020, aggregated revenue for secondary cities is 63.3 per cent or R4 billion of their total adjusted revenue budget of R64.8 billion for the 2019/20 financial year. The year-to-date operating expenditure level of the secondary cities is 52.7 per cent or R31.4 billion of the total adjusted operating budget of R59.6 billion for the 2019/20 financial year.
8. The performance against the adopted budget for the four core services for the secondary cities for the third quarter 2019/20 also shows surpluses against billed revenue without taking into account the collection rate:
 - Water revenue billed was R5.4 billion against expenditure of R4.6 billion;
 - Energy sources revenue billed was R14.1 billion against expenditure of R12.5 billion;
 - The revenue billed for waste water management was R2.3 billion against expenditure of R866 million; and
 - Levies for waste management billed were R1.8 billion against expenditure of R1.3 billion.

9. Capital spending levels for secondary cities are reported at 37.3 per cent or R3.6 billion of the adjusted capital budget of R9.7 billion.
10. Aggregate municipal consumer debts amounted to R181.3 billion (compared to R181.5 billion reported in the second quarter of 2019/20) as at 31 March 2020. The government accounts for 10.3 per cent or R18.1 billion (R13.2 billion reported in the 2019/20 second quarter) of the total outstanding debtors. The largest component of this debt relates to households and represents 70.5 per cent or R127.7 billion (68.5 per cent or R124.4 billion in the second quarter).
11. It needs to be acknowledged that not all the outstanding debt of R181.3 billion is realistically collectable, as these amounts are inclusive of debt older than 90 days (historic debt that has accumulated over an extended period), interest on arrears and other recoveries. This should not be interpreted that the National Treasury by implication suggests that the balance must be written-off by municipalities.
12. If consumer debt is limited to below 90 days, then the actual realistically collectable amount is estimated at R30.4 billion.
13. Metropolitan municipalities are owed R88.1 billion (R90.1 billion reported in the second quarter of 2019/20) in outstanding debt as at 31 March 2020. The largest contributors are the City of Johannesburg which is owed the largest amount at R28.7 billion, followed by City of Ekurhuleni at R15.1 billion, City of Tshwane at R4.3 billion and eThekweni at R13 billion.
14. Households in metropolitan areas are reported to account for R62.4 billion or 70.8 per cent of outstanding debt, followed by businesses which account for R15.6 billion or 17.8 per cent. Debt owed by government agencies is approximately R7.7 billion or 8.7 per cent of the total outstanding debt owed to metros.
15. For the secondary cities, R39.9 billion (R42.7 billion reported in the second quarter of 2019/20) in outstanding consumer debt. The majority of debt is owed by households amounting to R30.5 billion or 76.5 per cent of the total outstanding debt. An amount of R34.9 billion or 87.5 per cent has been outstanding for more than 90 days.
16. Municipalities owed their creditors R49.3 billion as at 31 March 2020, an increase of R1.7 billion when compared to the R47.5 billion reported in the second quarter of 2019/20.
17. With the exception of the incorrect figures reported by Western Cape, municipalities in the Free State have the highest outstanding creditors greater than 90 days at R10.5 billion, followed by Mpumalanga at R6.3 billion and Gauteng at R3.8 billion.
18. The total balance on borrowing for all municipalities equates to R66.7 billion as at 31 March 2020. This includes long term loans of R48.7 billion, long term marketable bonds of R11.7 billion and other long term non-marketable bonds of R6.3 billion. The balance represents other short- and long-term financing instruments.
19. As at 31 March 2020, the total investments made by municipalities equates to R39.1 billion. This is R1.4 billion higher than the R37.8 billion reported in the second quarter of 2019/20. Investments includes bank deposits of R33.8 billion, guaranteed endowment policies (sinking funds) of R5.1 billion, listed corporate bonds of R152 million and some smaller investments.

Conditional Grants

Conditional Grants Expenditure as at 31 March 2020

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20. The third quarter publication in terms of section 71 of MFMA provides for various adjustments to the baseline allocations approved during the beginning of the financial year. National Treasury published three national gazettes namely Government Gazette No. 42097, Government Gazette No. 43039 and Government Gazette No.43180 dated 13 December 2019, 21 February 2020 and 30 March 2020 respectively during 2019/20 financial year.
21. The gazettes were done in line with sections 19, 20 and 21 of Division of Revenue Act (DoRA) and DoRAA that stipulate that National Treasury may in its discretion or at the request of a transferring national officer or receiving officer stop the transfer for schedule 4 and 5 allocations pertaining to anticipated underspending on programmes or allocations by the municipalities. Further, National Treasury approved the requests by transferring national officers to convert conditional grants between schedules.
22. Total amount of R30.9 billion or 95.3 percent has been transferred to municipalities against the direct conditional grant allocation of R32.4 billion. This amount excluded the Equitable Share allocation, Urban Settlement Development Grant (supplementary capital allocation to metropolitan municipalities) and performance against roll-overs.
23. The Transferring Officer's (TO) report expenditure of 46.3 per cent against the total allocation for the period under review, while municipalities reported expenditure of 76 per cent against the R30.9 billion transferred to municipalities in the third quarter.

Capacity Building and Other Conditional Grants Expenditure as at 31 March 2020

24. At the end of the third quarter, a total amount of R1.6 billion was transferred by the TO's for capacity grants and reported expenditure of 58.6 per cent against the total allocation. These grants are intended to assist municipalities in the development of their management, planning, technical, budgeting and financial management capabilities in the 2019/20 financial year.
25. The highest performing conditional grant under this category during the third quarter is the Expanded Public Works Programme (EPWP) at 77.3 per cent, followed by the Integrated Skills Development Grant (ISDG) with reported performance of 61.7 per cent as reported by the municipalities.
26. The Energy Efficiency and Demand Side Management (EEDSM) reflects an expenditure of less than 50 per cent against the allocation of R227.1 million due to the low expenditure reported on the grant is as a result of most projects being in the procurement stage and the late appointment of service providers.

Infrastructure Conditional Grants Expenditure as at 31 March 2020

27. Direct conditional grants allocated for infrastructure allocation amounts to R31.1 billion in the 2019/20 financial year and this allocation includes additional allocation of R86.2 million allocated during the national adjustment budget. This amount excludes indirect or in-kind allocations to transferring officers executing specific projects on behalf of municipalities in the municipal area.
28. From the amount of R31.1 billion allocated, R29.2 billion has been transferred to municipalities by TOs which constitutes 93.9 per cent.
29. The highest performing direct conditional grant to municipalities during the third quarter is the Integrated Urban Development Grant (IUDG) with reported performance of 54.4 per cent, followed by Municipal Infrastructure Grant with expenditure of 53.2 per cent.

30. The rest of the infrastructure grants reported expenditures that were below 30 per cent. Namely, Water Services Infrastructure Grant, Regional Bulk Infrastructure Grant, Public Transport Networks Grant, National Electrification Programme, Neighbourhood Development Partnership Grant, Municipal Emergency Housing Grant and the Municipal Disaster Grant.
31. Indirect infrastructure grants allocated to municipalities amounts to R6.9 billion in the 2019/20 financial year. Performance monitoring for these grants are not included as part of the Section 71 publications because municipalities do not receive these allocations directly (allocations in-kind). Reporting on these transfers should be included in the Section 40 reporting requirements for National Departments as articulated in the Public Finance Management Act, 1999 (Act No. 1 of 1999).
32. The TO's reported expenditure of 46.3 per cent against the total allocation for the period under review, while municipalities reported expenditure of 76 per cent against the R30.9 billion transferred to municipalities in the third quarter.

Outcome of the 2018/19 Rollover process

33. The third quarter publication includes the 2018/19 rollover approvals for municipalities. During the 2018/19 financial year only R1.8 billion was approved against an amount of R4.4 billion in rollover request and R2.6 billion was rejected.
34. Municipalities across the various categories continue to under report against their conditional grant rollovers. From the approved total roll over of R1.7 billion, only R132.2 million was reported as expenditure during the third quarter performance.

A summary of key aggregated information is included in the tables in **Annexure A**.

Further details on this report can be accessed on the National Treasury's website: www.treasury.gov.za.

NOTE TO EDITORS:

- This information is published in terms of Sections 71 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), and 30(3) of the 2019 Division of Revenue Act. The budgeted figures shown are based on the 2019/20 adjusted budgets approved by municipal councils.
- In terms of the process, Municipal Managers and Chief Financial Officers are required to sign and submit data to the National Treasury by 19 May 2020. Any queries on the figures in these statements should be referred to the relevant Municipal Manager or Chief Financial Officer. Queries on conditional grants may be referred to the national department responsible for administering the grant.
- A municipal budget must be funded in terms of Section 18 of the MFMA before a Municipal Council can adopt that budget for implementation. A funded budget is essentially a budget that is funded by a combination of cash derived either from realistically anticipated revenues to be collected in that year, and cash backed surpluses of previous years. It is a common practice amongst most municipalities, when preparing their annual budgets, to overstate or inflate revenue projections, either to reflect a surplus, or on the surface to show that excess expenditure requirements are adequately covered by revenues to be collected. Therefore, the revenue estimates are seldom underpinned by realistic or realisable revenue assumptions resulting in municipalities not being able to collect this revenue, and as a result finding themselves in cash flow difficulties. Should such situations arise, municipalities must adjust expenditure downwards to ensure that there is sufficient cash to meet these commitments.
- This third quarter publication covers 257 municipalities on financial information and conditional grant information.

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STRUCTURE OF INFORMATION RELEASED:

Other information released on National Treasury's website (www.treasury.gov.za) as part of this process includes the following:

- Municipal Budget Statements:
 - a. High-level summary of revenue for 257 municipalities; and
 - b. High-level summary of expenditure for 257 municipalities.
- Summary of revenue and expenditure per function (electricity, water, etc):
 - a. High level summary of revenue per function; and
 - b. High level summary of expenditure per function.
- Consolidation of revenue and expenditure numbers for each municipality in one file.
- Detail per province per municipality.
- Summary of Conditional Grant (CG) Information for all municipalities and per grant.
- CG - Detail per province per Municipality.
- Summary of Conditional Grant (CG) information per programme.
- Section 71 summary information for the second quarter:
 - a. Summary of total monthly operating expenditure – 257 municipalities;
 - b. Summary of total monthly operating revenue – 257 municipalities;
 - c. Summary of total monthly capital expenditure – 257 municipalities;
 - d. Summary of total monthly capital revenue – 257 municipalities;
 - e. Summary – Metros;
 - f. Conditional Grant summary – Metros;
 - g. Summary – Secondary cities municipalities;
 - h. Conditional Grant summary – Secondary cities municipalities;
 - i. Summary – Provinces;
 - j. Conditional Grant summary – Provinces;
 - k. Analysis of Sources of Revenue – 257 municipalities;
 - l. Listing of borrowing instruments – 204 municipalities;
 - m. Listing of investment instruments – 188 municipalities;
 - n. Monthly repairs and maintenance expenditure – 257 municipalities.
- Service delivery information (non-financial performance) for all municipalities.
- Non Compliance:
 - a. List municipalities not complying with Section 71 of the MFMA.

The section 71 information reported by municipalities to National Treasury is also published on the National Treasury website in the format of Schedule C, which is the format for monthly and quarterly municipal financial statements as prescribed by the Municipal Budget and Reporting Regulations.